

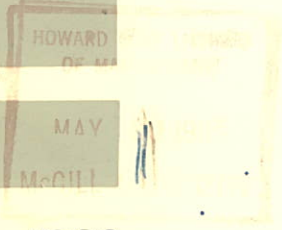
COFFEE

APPAREL
MANUFACTURING

GENERAL RETAIL
MERCHANDISING

FOOTWEAR MANUFACTURING
AND RETAILING

FURNITURE AND
HOME FURNISHINGS



1983
Annual Report

INTERCO Today

INTERCO is a broadly based major manufacturer and retailer of consumer products and services represented by four operating groups.

Apparel Manufacturing Group consists of 11 apparel companies operating 56 manufacturing plants and 12 major distribution centers across the country. The group designs, manufactures and distributes a full range of branded and private-label sportswear, casual apparel, outer garments and headwear for men and women. Distribution is national in scope to department stores, specialty shops and other retail units. Substantial distribution, under private and branded labels, is also made to large national retail and discount chains.

General Retail Merchandising Group operates 847 retail locations in 28 states offering to the consumer a large assortment of products and services. General retailing includes junior department stores, discount stores, men's and women's specialty apparel shops, specialty department stores and large do-it-yourself home-improvement centers. Ten modern regional distribution centers support these retail locations.

Footwear Manufacturing and Retailing Group operates 878 retail shoe stores and leased shoe departments in 43 states in this country, as well as in Australia, Canada and Mexico. The group also styles, manufactures and distributes, primarily, men's footwear in most major price ranges in the United States, Canada and Australia. There are 19 shoe manufacturing plants and three major distribution centers in operation.

Furniture and Home Furnishings Group manufactures and distributes quality furniture and home furnishings. There are 44 factories and 12 major distribution centers and consolidation warehouses located throughout the United States. The company also owns and operates 26 Showcase Galleries and accessory stores.

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| Years Ended | February 28, 1983 | February 28, 1982 | Change |
|--|------------------------|----------------------|---------|
| From operations: | | | |
| Net sales | \$2,566,606,000 | \$2,673,769,000 | (4.0)% |
| Earnings before income taxes | 165,876,000 | 223,270,000 | (25.7)% |
| Net earnings | 85,762,000 | 118,615,000 | (27.7)% |
| As a percent of sales | 3.3% | 4.4% | |
| Per share of common stock: | | | |
| Earnings | \$5.22 | \$7.23 | (27.8)% |
| Dividends | \$2.88 | \$2.88 | — % |
| Financial condition at year end: | | | |
| Working capital | \$ 828,842,000 | \$ 785,328,000 | 5.5 % |
| Current ratio | 4.5 to 1 | 4.0 to 1 | |
| Total assets | 1,554,975,000 | 1,538,950,000 | 1.0 % |
| Stockholders' equity | 1,023,231,000 | 985,072,000 | 3.9 % |
| Book value per common share | \$64.64 | \$62.36 | 3.7 % |
| Return on stockholders' average investment | 8.6% | 12.5% | |
| Shares outstanding at year end: | | | |
| Common | 14,425,609 | 14,200,276 | |
| Preferred | 908,136 | 995,722 | |
| Number of stockholders | 13,400 | 14,500 | |
| Number of employees | 52,000 | 54,000 | |

This past fiscal year was a difficult one, not only for INTERCO, but for businesses in general. Net sales for fiscal 1983 were \$2.57 billion, compared with \$2.67 billion last year. Net earnings were \$85.8 million, compared to \$118.6 million a year ago. The pretax return on sales was 6.5%. Despite the decline, fiscal 1983 was a year of opportunity, and substantial progress was made in a number of important areas. The financial strength of your company was improved significantly. At year end, our working capital ratio was 4.5 to 1, compared to 4.0 to 1 a year ago. Our debt-to-capitalization ratio was improved to 20.7% from 21.8%. At the end of the year, INTERCO had no short-term debt, and cash and marketable securities exceeded \$100 million. Stockholders' equity surpassed the billion dollar mark for the first time in the company's history.

INTERCO's decentralized management philosophy, which fosters the entrepreneurial spirit, has been extremely effective during this time of rapid market changes. Our experience this past year reconfirms our view that companies with strong branded lines, an effective management style that reacts quickly to change, and dedication to a strong balance sheet will not only endure troublesome times, but will be better positioned for future growth.

During fiscal 1983, INTERCO concentrated on fundamental areas. The market leadership enjoyed by a number of our companies was enhanced by the introduction of many new and exciting products. INTERCO manufacturing companies increased their advertising expenditures approximately 10% to further consumer awareness of our strong branded lines. Several new programs were implemented to control or reduce costs, improve asset management, and increase cash flow. These programs will be continued into our new fiscal year. We also recognize the need to invest in the future. During the year, capital expenditures of \$40.1 million were made. Priority was given to projects associated with new products, cost reduction, improved productivity, and plant and store modernization.

In an ongoing effort to strengthen the management structure of INTERCO, Paul H. Broyhill, Chairman of the Board of *Broyhill Furniture Industries, Inc.*, was elected to the INTERCO Board of Directors in June 1982. Eugene F. Smith joined the company in July 1982 as Senior Vice President, Finance.

From a strategic planning viewpoint, we continue to focus our efforts on company growth through both internal expansion and acquisitions. Equally important is the goal of improving the return on stockholders' equity. This is stressed in reviewing business plans with the INTERCO companies. Redeployment of assets will be implemented where appropriate.

While we are pleased to see some recent positive indications in the economy, and specifically in consumer attitudes toward spending, we continue to budget our operations on a conservative basis at this time.

In this year's Annual Report, we are emphasizing the products and services offered by the INTERCO companies. These products and services represent quality and value to the consumer and are the nucleus of our competitive strength. They give us continued confidence for the future. The success of any company is dependent upon a combination of factors, not the least of which is the loyalty and dedication of its employees. INTERCO is grateful to them for their dedicated effort, and to its stockholders for their confidence and support.



Harvey Saligman, left,
John K. Riedy, right.

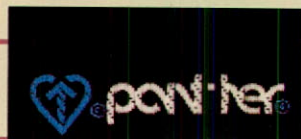
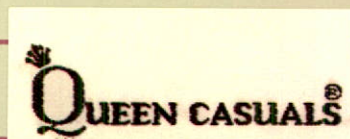
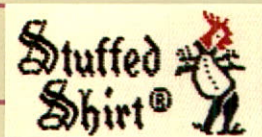
John K. Riedy
Chairman of the Board
and Chief Executive Officer

Harvey Saligman
President
and Chief Operating Officer

April 11, 1983



APPAREL MANUFACTURING



For fiscal 1983, the Apparel Manufacturing Group sales were \$877.3 million, or 34.2% of the consolidated sales, and operating earnings were \$94.8 million, or 46.7% of the operating earnings of the company, for a return on sales of 10.8% before income taxes, corporate expenses and interest cost. This compares to prior year sales of \$899.2 million and operating earnings of \$104.8 million.

As a major domestic apparel manufacturer, consisting of 11 operating companies, we offer large selections of dress and casual products under nationally recognized brand names that represent both quality and value to the consumer. Our women's apparel companies serve the missy, junior, petite and large size markets, and their products include pants, skirts, shorts, jackets, vests, sweaters, blouses, shirts, jeans, headwear, rainwear and outerwear. Many of our companies produce coordinates, garments sold separately that can be worn together. Apparel products for men include sport and dress shirts, slacks, jeans, shorts, swimwear, sweaters, sport coats, suits, headwear, rainwear and outerwear. INTERCO's products are sold in leading department and specialty stores, as well as by retail chains throughout the country. As an indication of the market strength of our product offerings, we shipped approximately 85 million units of apparel during fiscal 1983.

The INTERCO Apparel Group has been successful in maintaining a strong market position for a number of reasons. First, the buying public has responded to current economic conditions with renewed interest in premium quality, classically styled, "investment" apparel which many view to be synonymous with our consumer recognized and respected brand names. Second, engineering and cost control programs have enabled our divisions to minimize the impact of raw material and labor cost increases while maintaining quality and value. Third, the leadership position of our brands was supported in the marketplace with effective national advertising programs to reinforce consumer awareness. Fourth, retailers have responded to the consumer and the economy by concentrating on trusted brand names that have a fine record of performance, such as those of INTERCO shown on the preceding page.

During the year, the highly successful *Campus Le Tigre* line for young men and women was expanded to include boys' sizes, and initial reception has been excellent. *College-Town* introduced its new *Seprats* division, marketing a line of separate sportswear for the traditional missy customer. *Queen Casuals* presented their *Paisley* branded updated blouses. *Sidney Gould* created the *Gould Sports Club* label and brought to the market a group of coordinated separates, styled primarily in knits, to serve the growing demand for weekend and active sportswear. *Biltwell* launched an innovative product and selling concept with its *Civilian Issue* packaged slack program for men. This concept combines the presentation of dress slacks in a wide variety of sizes and finished lengths, in clearly marked plastic packaging, utilizing a specially designed attractive floor display for easy consumer selection. *Cowden* released a new branded line of men's and boys' jeans under the *Cowden* label which, because of its initial success, was further expanded to include a similar line in women's wear.

Lackluster sales have caused retailers in general to buy cautiously and selectively. Notwithstanding, our products have continued to perform well. Performance is the major factor considered by retailers when allocating funds to restock their stores. Experience has shown that the more adverse the economic trends, the more retailers tend to concentrate on leading brands and suppliers with proven performance.

In the year ahead, INTERCO's Apparel Group is looking to continue expansion through new product offerings, new merchandising and marketing concepts, improved manufacturing and distribution techniques and, most importantly, by continuing to supply quality products that represent value, at prices our customers can afford.

Major Apparel Brands for Women:

Clipper Mist
College-Town
Devon
Fog
It's Pure Gould
Lady Devon
Lady Queen
Le Tigre
London Fog
Maincoats
Outdoors Unlimited
Pant-her
The Petite Concept
QC 3
Queen Casuals
Paisley
REJOICE!
Seprats
Separate Pieces
Stuffed Jeans
Stuffed Shirt
Travelaire

Major Apparel Brands for Men:

Benchley Ltd.
Big Yank
Biltwell
Campus
Campusport
Clipper Mist
Cowden
Donegal
Fog
John Alexander
Le Tigre
Le Tigre, Jr.
London Fog
Maincoats
One University Place
Outdoors Unlimited
Pro-action
Rugged Country
Startown
Studio One by Campus
Tailor's Bench
Tour de France
Travelaire
Work-Mates by Big Yank

Major Retail Trading Names:

Alberts
 Albert K
 Alcove
 Canthers
 Central Hardware
 Eagle Family Discount Stores
 Fashion Cents
 Fine's
 Golde's
 Hirsch Value Center
 Idaho Department Store
 Jeans Galore
 Keith O'Brien
 Kent's
 Miller's
 P. N. Hirsch
 Shainberg's
 Sky City Discount Center
 Standard Sportswear
 Thornton's
 United Shirt
 Wigwam

For fiscal 1983, the General Retail Merchandising Group sales were \$685.7 million, or 26.7% of the consolidated sales, and operating earnings were \$22.4 million, or 11.0% of the operating earnings of the company, for a return on sales of 3.3% before income taxes, corporate expenses and interest cost. This compares to prior year sales of \$672.2 million and operating earnings of \$22.8 million.

The General Retail Merchandising Group includes the following companies:

- *Alberts* operates 71 women's specialty stores, in principal midwest markets, featuring nationally recognized brands.
- *Central Hardware* operates 29 large home-improvement centers in five midwestern states.
- *Golde's* operates ten specialty department stores in Missouri and Illinois.
- *Sky City Discount Stores* operates 72 large self-service units in the southeast, and *Eagle Family Discount Stores* operates 225 smaller units, principally in Florida. Both of these are convenience discount stores.
- *P. N. Hirsch* operates 356 junior department stores, principally in the midwest and west, under various trading names including *P. N. Hirsch*, *Shainberg's*, *Wigwam*, *Thornton's*, *Kent's*, *Idaho Department Stores* and others.
- *Fine's/Standard* and *United* operate 84 men's specialty stores in Virginia, North and South Carolina, Pennsylvania, Tennessee, Ohio and Michigan.

Central Hardware reached another milestone celebrating its 75th anniversary this year. Its outstanding customer service and selection of over 50,000 items have firmly established this company in the communities it serves.

During fiscal 1983, we focused attention on improving the operating results of the General Retail Merchandising Group. These efforts will continue into the new fiscal year. From a merchandising standpoint, we continue to provide quality merchandise to a broad base of consumers at affordable prices. This thrust is supported by selective and aggressive buying programs with a quality-first attitude. In addition, by utilizing improved information systems, shorter buying cycles have been instituted which will result in a better selection of current merchandise on a timely basis, a faster inventory turn, and lower inventory levels.

The market coverage and sales potential of our retail group was enhanced by the opening of 25 new stores in selected shopping centers in geographic areas offering significant growth opportunities. At the same time, consistent with the company's objective of constantly striving to improve its return on investment, 47 marginal stores were closed. Additionally, a number of units were updated and redecorated in order to enhance sales opportunities in existing locations.

Within the home-improvement area, the high costs of single family dwellings, and mortgages have increased the number of families that are remodeling and refurbishing their existing homes, rather than purchasing one new. *Central Hardware* provides the materials for the do-it-yourselfer, along with its new in-store *Mr. Tinker's* service centers which will repair screens and windows, cut lumber, sharpen knives and cut to size many of the home repair items that are stocked.

In fiscal 1983, apparel merchandising programs in the Retail Group have been updated in recognition of changing consumer trends. In men's and boys' wear, sportswear has continued to grow in importance. Today, women and girls are more selective in the styles they choose. Fashion is no longer the only criterion, but also quality merchandise at competitive prices.

In response to customers becoming more selective and "sale" conscious, we have stressed improved purchasing techniques, cost reduction and, more importantly, improved customer service and after-sale support. The goal of these programs is to make it more attractive for customers to shop in our stores.

CENTRAL HARDWARE



Standard Sportswear

P.N. HIRSCH & CO.

JEANS GALORE

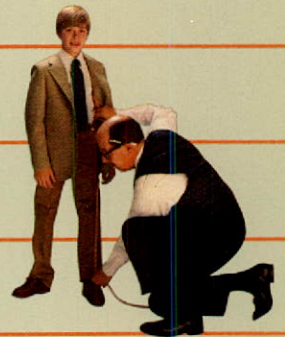
GENERAL RETAIL
MERCHANDISING

alberts

SKY CITY

DISCOUNT
CENTER

Golde's



FINE'S



EAGLE

FAMILY
DISCOUNT
STORES


United Shirt

Weeds
FROM FLORSHEIM®




IDLERS
BY FLORSHEIM®

 **Sea
Tracs**
By LONDON FOG.

**THE
IMPERIAL
SHOE**

Imperial Quality
by FLORSHEIM

Christian
Dior
MONSIEUR
SOULIERS

*The Royal
Imperial*
FLORSHEIM SHOE


Winthrop®

FOOTWEAR MANUFACTURING
AND RETAILING

NCA★44


Outdoorsman.


HY-TEST



MARSHMALLOWS®

CRAWDADS®

For fiscal 1983, the Footwear Manufacturing and Retailing Group sales were \$546.0 million, or 21.3% of the consolidated sales, and operating earnings were \$57.1 million, or 28.2% of the operating earnings of the company, for a return on sales of 10.5% before income taxes, corporate expenses and interest cost. This compares to prior year sales of \$587.0 million and operating earnings of \$78.4 million.

Footwear Manufacturing

Florsheim has been the hallmark for quality footwear throughout the years, offering its many customers an outstanding value. We are proud of their fine tradition and congratulate its management and loyal employees upon reaching its 90th anniversary. Over those 90 years, many changes in life styles have taken place and *Florsheim* has learned to react and adapt its products accordingly. In response to the significant movement to less formal, more comfortable living, the *Florsheim* men's product line has been expanded to include a lighter weight, more flexible construction process with adequate foot support, featuring new softer leathers especially developed by *Florsheim*.

Sea Tracs by London Fog, recreational footwear for men and women, has successfully responded to the demand for casual and functional footwear. Similarly, *Christian Dior*, our men's fashion footwear, had substantially increased sales in response to consumer demands for designer styled products. Both of these lines provide our Footwear Manufacturing Group an excellent opportunity for future growth.

During this period of reduced demand because of industrial plant closings and high unemployment throughout the nation, *International Shoe* has taken positive action to retain the leading market position of its *Hy-Test* Safety Shoe Division. A major advertising and educational program has been undertaken stressing the advantages of its exclusive "Anchor Flange Steel Toe." This program emphasizes the importance of adequate footwear protection both on and off the job. Government statistics indicate that foot injuries occurring off the job outnumber industrial accidents by more than two to one. Therefore, *Hy-Test* is featuring men's and women's *Double-Duty Casuals*, incorporating many safety features.

Cost containment, together with equipment modernization programs, are essential to Footwear Manufacturing's commitment to produce quality shoes at prices that represent a true value to the consumer. During the year, additional high technology machinery was acquired and computerized pattern grading equipment was updated to reduce the time between product development and delivery of the finished product. These investments will enable us to serve our customers better by reacting more quickly to style changes.

Footwear Retailing

Retailing operations of *Florsheim Shoe Shops* for men and *Florsheim Thayer McNeil Shops* for women and men were further enhanced by the refurbishing of 65 stores during the year so as not only to provide loyal customers with an attractive, updated shopping environment, but also to attract new customers.

A new organizational structure was established within *Florsheim* retail operations for improved coordination of merchandising and sales efforts, and better administrative control of inventories and expenses.

Senack Shoes, Inc., an operator of leased shoe departments and stores, continued its policy of closing smaller, less productive units and replacing them with larger and more profitable departments in growing retail organizations.

The quality image of our many footwear brands, together with increased emphasis on greater efficiency and streamlined operations, will insure the growth of our Footwear Manufacturing and Retailing Group as the economy recovers.

Major Footwear Brands:

For Men:

Ambassador
Florsheim
Florsheim Imperial
Royal Imperial by Florsheim
City Club
Idlers by Florsheim
Lifestyle
Weeds from Florsheim
Grizzlies
Hy-Test
Julius Marlow
Outdoorsman
Rand
Roberts
Sea Tracs by London Fog
Winthrop
Worthmore

For Women:

Crawdads
diVina
Florsheim
Lady
Marshmallows
Miss Wonderful
Personality
Sea Tracs by London Fog
Thayer McNeil
Vitality

Major Retail Trading Names:

Florsheim Shoe Shops
Florsheim Thayer McNeil
Duane's
Miller Taylor
Phelp's
Thompson, Boland & Lee

Major Furniture and Home Furnishings**Brands:**

Ethan Allen
Broyhill
Kling
Knob Creek
Restocrat
Lenoir House
Broyhill Premier

Major Retail Trading Names:

Carriage House
Georgetown
Georgetown Manor
Manor House
Broyhill Showcase Gallery

For fiscal 1983, the Furniture and Home Furnishings Group sales were \$457.6 million, or 17.8% of the consolidated sales, and operating earnings were \$28.7 million, or 14.1% of the operating earnings of the company, for a return on sales of 6.3% before income taxes, corporate expenses and interest cost. This compares to prior year sales of \$515.4 million and operating earnings of \$55.3 million.

We believe that the Furniture and Home Furnishings Group, consisting of *Ethan Allen* and *Broyhill*, outperformed the industry last year although the results were lower than a year ago. 1982 marked the 50th anniversary of the founding of *Ethan Allen* which has progressed from a small home furnishings jobber established in 1932, to one of the best known and most highly respected furniture and home furnishings manufacturers in the world. Today its operations encompass 24 factories, five consolidation warehouses, and five regional distribution centers. INTERCO salutes *Ethan Allen's* 5,500 employees and management for their achievements over the last 50 years, and we look forward to their continued growth and success in the future.

A strong dealer base, represented by 316 *Ethan Allen* Galleries throughout the United States and in several foreign countries, played an important role in the success of the company in the past and, during fiscal 1983, significant progress was made to strengthen their operations. A major communications program was undertaken between *Ethan Allen's* national headquarters and its dealers. In this program, the newest sales and marketing techniques, home planning and decorating services, and other information to improve customer service are continually presented to dealers through video cassette recordings.

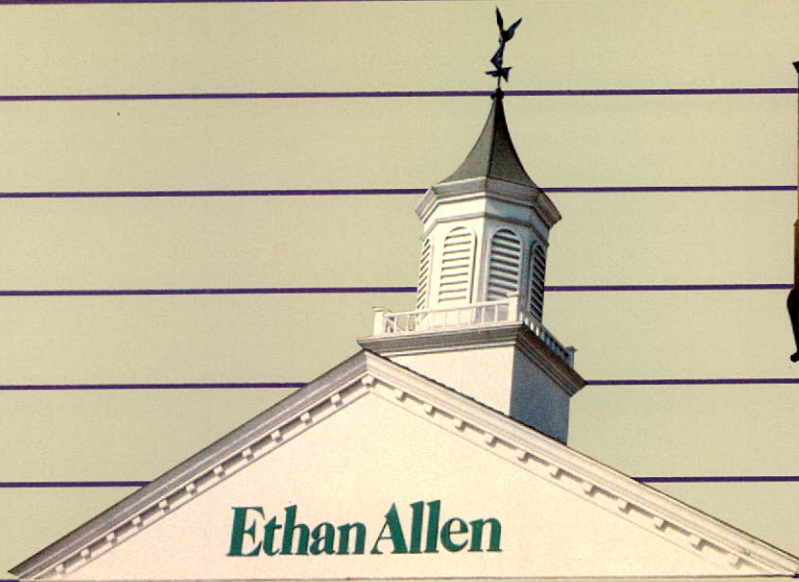
An expanded national advertising campaign focused on the traditional values of home and family and illustrated that *Ethan Allen* is dedicated to contributing to this environment through its home decorating services and quality products. Direct mail seasonal advertisements were provided by *Ethan Allen* and distributed by its dealers to millions of homes throughout the nation, providing opportunities for increased customer traffic in the Galleries.

A major breakthrough in the industry was the establishment of a pilot program which enables *Ethan Allen* to not only warehouse its inventories in close proximity to dealers' Galleries, but also to undertake home deliveries for their dealers. The success of this revolutionary program will allow *Ethan Allen* dealers to concentrate their efforts on sales, marketing, and customer satisfaction.

Broyhill has also concentrated on strengthening its dealer organization and further development of the *Broyhill* Showcase Gallery concept. The typical gallery consists of approximately 6,000 square feet within a dealer's showroom in which products from all four *Broyhill* divisions are displayed — bedroom, dining room, living room and occasional furniture, along with appropriate accessories. *Broyhill* now has over 100 enthusiastic dealers committed to this program. During this past year, the *Premier* line of solid wood and upgraded furniture was introduced for distribution by the Showcase Gallery dealers.

Capital expenditures of \$12.1 million were made by our furniture and home furnishings companies, which are high technology oriented and operate some of the most modern production facilities and equipment in the industry. Both *Broyhill* and *Ethan Allen* are truly innovators and leaders in their field. Every facet of their business is continually reviewed and updated. For example, a total computerized network is being installed connecting *Ethan Allen's* headquarters, distribution centers and factories with each *Ethan Allen* Gallery to allow instant communication of order entry, shipment status and other data to enable its dealers to service their customers better.

INTERCO is confident that the Furniture and Home Furnishings Group is well positioned for strong growth as the economy emerges from the recession.



Ethan Allen



Lenoir House

Ethan Allen

AMERICAN TRADITIONAL INTERIORS

RESTOCRAT RECLINER

 **Broyhill**[®]
Premier Collections[™]

 **Broyhill**[®]
Upholstery
QUALITY
TRADITION
EXCELLENCE

KNOB CREEK[®]

FURNITURE AND
HOME FURNISHINGS



Kling[®]

Fiscal 1983 was a year of challenge. Competition for business was intense and discounting and promotional selling was commonplace. For the year, net sales decreased 4.0% while operating earnings, before income taxes, corporate expenses and interest cost, were 22.3% below the record level of one year ago. Net earnings were 27.7% below last year's level.

The following summary depicts the net sales and earnings of our four operating groups for the five-year period 1979-1983, in thousands of dollars. Fiscal 1981 has been restated for the retroactive restatement of accounting for compensated absences in accordance with Financial Accounting Standards Board Statement No. 43.

| Years Ended | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Net sales: | | | | | |
| Apparel | \$ 877,341 | \$ 899,161 | \$ 850,970 | \$ 818,380 | \$ 731,259 |
| General Retail | 685,664 | 672,137 | 645,940 | 630,309 | 582,441 |
| Footwear | 546,041 | 587,035 | 558,291 | 554,955 | 537,758 |
| Furniture | 457,560 | 515,436 | 313,255 | 20,663 | — |
| Total | <u>\$2,566,606</u> | <u>\$2,673,769</u> | <u>\$2,368,456</u> | <u>\$2,024,307</u> | <u>\$1,851,458</u> |
| Earnings before income taxes: | | | | | |
| Apparel | \$ 94,843 | \$ 104,824 | \$ 109,413 | \$ 105,873 | \$ 95,585 |
| General Retail | 22,346 | 22,832 | 27,135 | 41,149 | 40,581 |
| Footwear | 57,114 | 78,381 | 83,600 | 65,435 | 61,520 |
| Furniture | 28,653 | 55,279 | 39,857 | 3,101 | — |
| Operating earnings | 202,956 | 261,316 | 260,005 | 215,558 | 197,686 |
| Less corporate expenses and interest cost | 37,080 | 38,046 | 27,984 | 9,823 | 10,817 |
| Total | <u>165,876</u> | <u>223,270</u> | <u>232,021</u> | <u>205,735</u> | <u>186,869</u> |
| Income taxes | <u>80,114</u> | <u>104,655</u> | <u>110,818</u> | <u>99,029</u> | <u>94,293</u> |
| Net earnings | <u>\$ 85,762</u> | <u>\$ 118,615</u> | <u>\$ 121,203</u> | <u>\$ 106,706</u> | <u>\$ 92,576</u> |
| As a percent of sales | <u>3.3%</u> | <u>4.4%</u> | <u>5.1%</u> | <u>5.3%</u> | <u>5.0%</u> |

NOTE: For fiscal 1980, the Furniture Group contains the operating results of *Ethan Allen* for the month of February 1980. For fiscal 1981, the Furniture Group includes operating results for a full year of *Ethan Allen* and for three months of *Broyhill*.

Net Sales

The net sales contribution for each operating group of the company is compared, in millions of dollars, as follows:

| | Fiscal 1983 | | Fiscal 1982 | | Fiscal 1981 | |
|----------------|------------------|--------------|------------------|--------------|------------------|--------------|
| | Sales | % | Sales | % | Sales | % |
| Apparel | \$ 877.3 | 34.2 | \$ 899.2 | 33.6 | \$ 851.0 | 35.9 |
| General Retail | 685.7 | 26.7 | 672.2 | 25.1 | 645.9 | 27.3 |
| Footwear | 546.0 | 21.3 | 587.0 | 22.0 | 558.3 | 23.6 |
| Furniture | 457.6 | 17.8 | 515.4 | 19.3 | 313.3 | 13.2 |
| | <u>\$2,566.6</u> | <u>100.0</u> | <u>\$2,673.8</u> | <u>100.0</u> | <u>\$2,368.5</u> | <u>100.0</u> |

The net sales of the company, by quarter, in millions of dollars, were:

| | Fiscal 1983 | Fiscal 1982 | Fiscal 1981 |
|----------------|------------------|------------------|------------------|
| First quarter | \$ 609.3 | \$ 639.4 | \$ 532.4 |
| Second quarter | 665.5 | 713.7 | 599.1 |
| Third quarter | 688.5 | 717.0 | 607.0 |
| Fourth quarter | 603.3 | 603.7 | 630.0 |
| | <u>\$2,566.6</u> | <u>\$2,673.8</u> | <u>\$2,368.5</u> |

Earnings

Operating earnings, before income taxes, corporate expenses and interest cost, for each operating group are compared, in millions of dollars, as follows:

| | Fiscal 1983 | | Fiscal 1982 | | Fiscal 1981 | |
|----------------|----------------|--------------|----------------|--------------|----------------|--------------|
| | Amount | % | Amount | % | Amount | % |
| Apparel | \$ 94.8 | 46.7 | \$104.8 | 40.1 | \$109.4 | 42.1 |
| General Retail | 22.4 | 11.0 | 22.8 | 8.7 | 27.1 | 10.4 |
| Footwear | 57.1 | 28.2 | 78.4 | 30.0 | 83.6 | 32.2 |
| Furniture | 28.7 | 14.1 | 55.3 | 21.2 | 39.9 | 15.3 |
| | <u>\$203.0</u> | <u>100.0</u> | <u>\$261.3</u> | <u>100.0</u> | <u>\$260.0</u> | <u>100.0</u> |

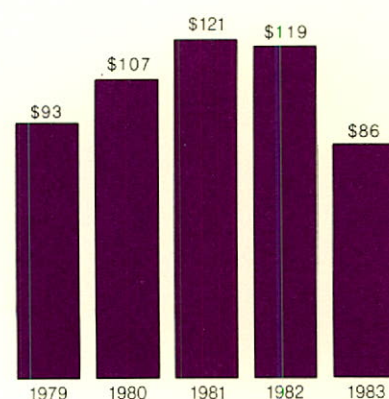
Our margin of profitability, operating earnings to sales, was 10.8% for the Apparel Group, 3.3% for the General Retail Group, 10.5% for the Footwear Group, and 6.3% for the Furniture Group.

Net Sales

(In Millions)

**Net Earnings**

(In Millions)



Earnings before income taxes were \$165.9 million, a decrease of \$57.4 million, or 25.7% from last year. The operating performance in the third and fourth quarters was progressively stronger than earlier in the year. The pretax profit margin was 7.4% in the second half compared to 5.5% in the first six months.

Net earnings for the year were \$85.8 million, down \$32.8 million or 27.7% from the net earnings of \$118.6 million for the previous year.

Earnings per share were \$5.22, a decrease of 27.8% from the \$7.23 in fiscal 1982.

Net earnings and earnings per share for each quarter are compared, as follows:

| | Net Earnings (In Millions) | | | Earnings Per Share | | |
|----------------|----------------------------|----------------|----------------|------------------------|----------------|----------------|
| | Fiscal 1983 | Fiscal 1982 | Fiscal 1981 | Fiscal 1983 | Fiscal 1982 | Fiscal 1981 |
| First quarter | \$16.2 | \$ 25.4 | \$ 23.0 | \$0.98 | \$1.55 | \$1.41 |
| Second quarter | 19.9 | 32.3 | 29.8 | 1.22 | 1.97 | 1.82 |
| Third quarter | 25.1 | 31.2 | 33.0 | 1.54 | 1.90 | 2.02 |
| Fourth quarter | 24.6 | 29.7 | 35.4 | 1.48 | 1.81 | 2.17 |
| | <u>\$85.8</u> | <u>\$118.6</u> | <u>\$121.2</u> | <u>\$5.22</u> | <u>\$7.23</u> | <u>\$7.42</u> |

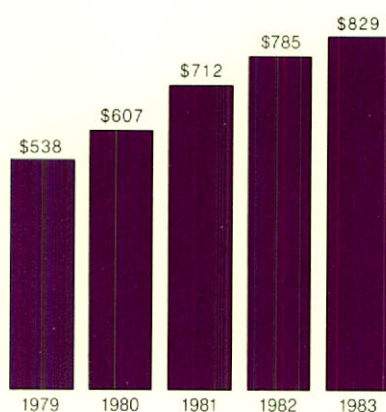
Capital Expenditures

Capital expenditures of \$40.1 million, which included \$4.0 million of capital leases, were made during fiscal 1983 for new retail outlets, new manufacturing plants and distribution centers, the refurbishment and modernization of a number of retail locations, the modernization of manufacturing plants and equipment, and the expansion of existing distribution facilities. Depreciation expense for the year was \$41.5 million.

For fiscal 1984, capital expenditures are forecasted at \$45 million with depreciation expense of \$43 million.

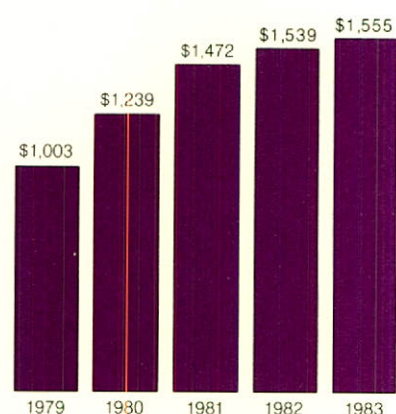
Working Capital

(In Millions)



Total Assets

(In Millions)



Financial Position

The company's financial position improved during the 1983 fiscal year.

- Working capital, the excess of current assets over current liabilities, was \$828.8 million at the end of fiscal 1983. The current ratio was 4.5 to 1 at February 28, 1983 compared to 4.0 to 1 a year ago.
- Cash and marketable securities were \$115.5 million, an increase of \$88.5 million at year end, after providing for capital expenditures, dividends and common stock repurchases.
- Accounts receivable were \$291.1 million at February 28, 1983, a decrease of 3.9% from the prior year.
- Inventories were reduced by 7.5% to \$642.3 million at year end.
- Total assets were \$1.55 billion, compared to \$1.54 billion a year earlier.
- Long-term debt, including capitalized leases of \$73.8 million, was \$267.1 million at year end, which represents a debt-to-capitalization ratio of 20.7%, an improvement from 21.8% at February 28, 1982.
- Stockholders' equity was \$1.02 billion at February 28, 1983. The return on stockholders' average investment was 8.6%. Book value per common share increased to \$64.64 from \$62.36 one year ago.

Dividends

Fiscal 1983 was the 72nd consecutive year of cash dividend payments. Cash dividends of \$48.5 million were paid during the fiscal year, with \$41.0 million to holders of common stock and the remainder to holders of preferred stock.

Quarterly common stock cash dividends per share were paid, as follows:

| | Fiscal 1983 | Fiscal 1982 | Fiscal 1981 |
|----------------|----------------------|---------------|---------------|
| First quarter | \$0.72 | \$0.72 | \$0.66 |
| Second quarter | 0.72 | 0.72 | 0.66 |
| Third quarter | 0.72 | 0.72 | 0.66 |
| Fourth quarter | 0.72 | 0.72 | 0.66 |
| | <u>\$2.88</u> | <u>\$2.88</u> | <u>\$2.64</u> |

The annual dividend rate on the Series D preferred stock is \$7.75 per share.

Book Value Per Common Share

Total Stockholders' Equity (In Millions)



Capital Stock

On February 28, 1983, there were 14,425,609 shares of common stock and 908,136 shares of preferred stock outstanding.

The Board has authorized the repurchase of 1,000,000 common shares. Through February 28, 1983, we had purchased 687,465 shares on the open market or by private transaction at a cost of \$26.7 million. The average price for repurchased shares was \$38.81 per share.

The common and preferred shares of INTERCO are traded on the New York Stock Exchange. Fluctuation in the high and low quoted prices, for each quarter, are shown in the following:

| | Fiscal 1983 | | Fiscal 1982 | | Fiscal 1981 | |
|----------------|---------------------|------------------|---------------------|---------------------|------------------|---------------------|
| | Common | | Common | | Common | |
| | High | Low | High | Low | High | Low |
| First quarter | \$ 46 | \$ 41 | \$ 54 $\frac{3}{4}$ | \$ 48 $\frac{3}{4}$ | \$ 42 | \$ 36 $\frac{7}{8}$ |
| Second quarter | 43 $\frac{3}{4}$ | 35 $\frac{1}{2}$ | 57 $\frac{1}{4}$ | 51 | 51 $\frac{1}{2}$ | 40 |
| Third quarter | 59 $\frac{3}{4}$ | 42 $\frac{1}{2}$ | 53 $\frac{3}{4}$ | 45 $\frac{1}{2}$ | 53 $\frac{3}{8}$ | 46 $\frac{1}{2}$ |
| Fourth quarter | 64 $\frac{1}{2}$ | 58 | 50 | 39 $\frac{1}{2}$ | 49 $\frac{1}{4}$ | 44 $\frac{1}{4}$ |
| | Preferred | | Preferred | | Preferred | |
| | High | Low | High | Low | High | Low |
| First quarter | \$ 99 $\frac{1}{2}$ | \$ 90 | \$ 117 | \$ 106 | \$ 90 | \$ 81 |
| Second quarter | 93 $\frac{1}{2}$ | 78 $\frac{1}{2}$ | 123 | 112 $\frac{1}{2}$ | 111 | 88 |
| Third quarter | 127 $\frac{1}{2}$ | 91 | 115 | 100 | 116 | 107 |
| Fourth quarter | 138 $\frac{3}{4}$ | 126 | 106 | 90 $\frac{1}{2}$ | 108 | 95 |

The closing market price of INTERCO's common and preferred stock at fiscal year end 1983 was \$63 and \$136 $\frac{3}{4}$ per share, respectively.

Trademarks and Tradenames

The trademarks, tradenames and licensed trademarks of INTERCO and its subsidiaries, appearing in this Annual Report, are italicized.

Charts

The charts, in the Fiscal 1983 in Review, have been restated where applicable in accordance with the Financial Accounting Standards Board Statement No. 43.

Form 10-K—Annual Report

A copy of INTERCO INCORPORATED's current Form 10-K filed with the Securities and Exchange Commission can be obtained by writing to: Treasurer, INTERCO INCORPORATED, Ten Broadway, St. Louis, Missouri 63102.

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Consolidated Balance Sheet

(Dollars in thousands)

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| Assets | February 28, 1983 | February 28, 1982 | February 28, 1981 |
|--|------------------------------|----------------------|----------------------|
| Current assets: | | | |
| Cash | \$ 14,801 | \$ 9,812 | \$ 6,326 |
| Marketable securities | 100,744 | 17,198 | 11,827 |
| Receivables, less allowances of \$15,374 (\$14,708 and \$14,455 in 1982 and 1981) | 291,130 | 302,877 | 308,051 |
| Inventories | 642,314 | 694,184 | 633,514 |
| Prepaid expenses and other current assets | 18,061 | 19,537 | 23,867 |
| Total current assets | 1,067,050 | 1,043,608 | 983,585 |
| Marketable investment securities | 11,199 | 14,432 | 14,298 |
| Property, plant and equipment: | | | |
| Land | 25,710 | 25,308 | 26,238 |
| Buildings and improvements | 368,121 | 358,587 | 347,250 |
| Machinery and equipment | 254,543 | 243,635 | 227,541 |
| | 648,374 | 627,530 | 601,029 |
| Less accumulated depreciation | 238,401 | 210,423 | 188,922 |
| Net property, plant and equipment | 409,973 | 417,107 | 412,107 |
| Other assets | 66,753 | 63,803 | 62,116 |
| | <u>\$1,554,975</u> | <u>\$1,538,950</u> | <u>\$1,472,106</u> |

See accompanying notes to consolidated financial statements.

| Liabilities and Stockholders' Equity | February 28, 1983 | February 28, 1982 | February 28, 1981 |
|---|------------------------------|----------------------|----------------------|
| Current liabilities: | | | |
| Notes payable | \$ — | \$ 3,568 | \$ — |
| Current maturities of long-term debt | 14,529 | 14,053 | 12,958 |
| Current maturities of capital lease obligations | 5,953 | 5,952 | 5,845 |
| Accounts payable | 130,923 | 148,071 | 161,692 |
| Accrued employee compensation | 36,983 | 35,583 | 34,088 |
| Other accrued expenses | 31,810 | 33,842 | 32,243 |
| Income taxes | 18,010 | 17,211 | 25,208 |
| Total current liabilities | 238,208 | 258,280 | 272,034 |
| Long-term debt, less current maturities | 193,341 | 198,054 | 187,208 |
| Obligations under capital leases, less current maturities | 73,785 | 76,820 | 79,925 |
| Other long-term liabilities | 26,410 | 20,724 | 22,066 |
| Stockholders' equity: | | | |
| Preferred stock, no par value, authorized 10,000,000 shares—issued 908,136 shares in 1983, 995,722 shares in 1982 and 1,014,399 shares in 1981 | 90,814 | 99,572 | 101,440 |
| Common stock, \$7.50 stated value, authorized 50,000,000 shares—issued 15,113,074 shares in 1983, 14,771,941 shares in 1982 and 14,585,248 shares in 1981 | 113,348 | 110,789 | 109,389 |
| Capital surplus | 66,885 | 54,512 | 47,961 |
| Retained earnings | 778,866 | 742,356 | 674,240 |
| | 1,049,913 | 1,007,229 | 933,030 |
| Less 687,465 (571,665 in 1982 and 1981) shares of common stock in treasury, at cost | 26,682 | 22,157 | 22,157 |
| Total stockholders' equity | 1,023,231 | 985,072 | 910,873 |
| | \$1,554,975 | \$1,538,950 | \$1,472,106 |

Consolidated Statement of Earnings

(Dollars in thousands except per share data)

20

| Years Ended | February 28, 1983 | February 28, 1982 | February 28, 1981 |
|--|------------------------------|----------------------|----------------------|
| Income: | | | |
| Net sales | \$2,566,606 | \$2,673,769 | \$2,368,456 |
| Other income, net | 29,779 | 28,801 | 27,419 |
| | <u>2,596,385</u> | <u>2,702,570</u> | <u>2,395,875</u> |
| Costs and expenses: | | | |
| Cost of sales | 1,759,527 | 1,820,369 | 1,591,635 |
| Selling, general and administrative expenses | 635,910 | 621,730 | 551,935 |
| Interest expense | 35,072 | 37,201 | 20,284 |
| | <u>2,430,509</u> | <u>2,479,300</u> | <u>2,163,854</u> |
| Earnings before income taxes | 165,876 | 223,270 | 232,021 |
| Income taxes | 80,114 | 104,655 | 110,818 |
| Net earnings | <u>\$ 85,762</u> | <u>\$ 118,615</u> | <u>\$ 121,203</u> |
| Earnings per share | <u>\$5.22</u> | <u>\$7.23</u> | <u>\$7.42</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Financial Position
(Dollars in thousands)

21

| Years Ended | February 28, 1983 | February 28, 1982 | February 28, 1981 |
|---|----------------------|----------------------|----------------------|
| Working capital provided by: | | | |
| Net earnings | \$ 85,762 | \$118,615 | \$121,203 |
| Items not affecting working capital: | | | |
| Depreciation | 41,469 | 39,400 | 32,845 |
| Other, net | 9,665 | 5,969 | 2,406 |
| Operations | 136,896 | 163,984 | 156,454 |
| Disposal of property, plant and equipment | 4,991 | 7,438 | 3,038 |
| Issuance of preferred stock | 231 | 396 | 3,666 |
| Issuance of common stock | 14,943 | 7,995 | 1,473 |
| Additions to long-term debt | 10,750 | 25,880 | 136,992 |
| Additions to capital lease obligations | 3,965 | 3,920 | 5,509 |
| Reduction of marketable investment securities | 3,613 | 500 | 28,416 |
| | <u>175,389</u> | <u>210,113</u> | <u>335,548</u> |
| Working capital used for: | | | |
| Cash dividends | 48,496 | 48,492 | 44,553 |
| Additions to property, plant and equipment: | | | |
| Company owned property | 36,144 | 48,353 | 62,857 |
| Capitalized leased property | 3,966 | 3,940 | 5,860 |
| Reduction of long-term debt | 14,906 | 15,273 | 16,571 |
| Reduction of capital lease obligations | 7,000 | 6,500 | 6,302 |
| Purchase of common treasury shares | 4,525 | — | 6,896 |
| Conversion of preferred stock | 9,000 | 2,308 | 159 |
| Marketable investment securities | — | — | 3,993 |
| Additional payment—purchased company | — | 2,523 | — |
| Other, net | 7,838 | 8,947 | 1,316 |
| | <u>131,875</u> | <u>136,336</u> | <u>148,507</u> |
| Acquisition (less working capital of \$69,276): | | | |
| Properties | — | — | 69,637 |
| Long-term debt | — | — | (6,562) |
| Excess of cost over fair value of net assets acquired | — | — | 19,314 |
| Other, net non-current assets | — | — | (66) |
| Net non-current assets | — | — | 82,323 |
| | <u>131,875</u> | <u>136,336</u> | <u>230,830</u> |
| Increase in working capital | <u>\$ 43,514</u> | <u>\$ 73,777</u> | <u>\$104,718</u> |
| Working capital increased (decreased) by: | | | |
| Cash and marketable securities | \$ 88,535 | \$ 8,857 | \$ (41,419) |
| Receivables | (11,747) | (5,174) | 64,308 |
| Inventories | (51,870) | 60,670 | 104,456 |
| Prepaid expenses and other current assets | (1,476) | (4,330) | 3,050 |
| Notes payable | 3,568 | (3,568) | — |
| Current maturities of long-term debt | (476) | (1,095) | (6,623) |
| Current maturities of capital lease obligations | (1) | (107) | (344) |
| Accounts payable and accrued expenses | 17,780 | 10,527 | (33,244) |
| Income taxes | (799) | 7,997 | 14,534 |
| | <u>\$ 43,514</u> | <u>\$ 73,777</u> | <u>\$104,718</u> |

See accompanying notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

(Dollars in thousands except per share data)

22

| | Preferred Stock | Common Stock | | Capital Surplus | Retained Earnings | Total |
|---|--------------------|------------------|-------------------|--------------------|----------------------|--------------------|
| | | Issued | Treasury | | | |
| Balance February 29, 1980 | \$ 97,238 | \$109,131 | \$(15,261) | \$47,441 | \$597,764 | \$ 836,313 |
| Net earnings | | | | | 121,203 | 121,203 |
| Cash dividends: | | | | | | |
| Preferred stock | | | | | (7,511) | (7,511) |
| Common stock—\$2.64 per share | | | | | (37,042) | (37,042) |
| Issuance of 39,964 preferred shares for conversion of debentures | 3,996 | | | (432) | | 3,564 |
| Issuance of 50 additional preferred shares for acquisition | 5 | | | (1) | | 4 |
| Conversion of preferred stock: | | | | | | |
| Series D—1,591 shares | (159) | 26 | | 133 | | — |
| Exercise of stock options: | | | | | | |
| Preferred—3,600 shares | 360 | | | (262) | | 98 |
| Common—29,780 shares | | 223 | | 1,044 | | 1,267 |
| Restricted stock plan: | | | | | | |
| Common—1,284 shares | | 9 | | 38 | | 47 |
| Purchase of 176,939 common treasury shares | | | (6,896) | | | (6,896) |
| Investment valuation allowance | | | | | (174) | (174) |
| Balance February 28, 1981 | 101,440 | 109,389 | (22,157) | 47,961 | 674,240 | 910,873 |
| Net earnings | | | | | 118,615 | 118,615 |
| Cash dividends: | | | | | | |
| Preferred stock | | | | | (7,809) | (7,809) |
| Common stock—\$2.88 per share | | | | | (40,683) | (40,683) |
| Issuance of 4,402 preferred shares for conversion of debentures | 440 | | | (44) | | 396 |
| Conversion of preferred stock: | | | | | | |
| Series D—23,079 shares | (2,308) | 374 | | 1,933 | | (1) |
| Exercise of stock options: | | | | | | |
| Common—79,930 shares | | 600 | | 2,497 | | 3,097 |
| Restricted stock plan: | | | | | | |
| Common—1,320 shares | | 10 | | 58 | | 68 |
| Issuance of 55,556 contingent common shares | | 416 | | 2,107 | | 2,523 |
| Investment valuation allowance | | | | | 507 | 507 |
| Foreign currency translations | | | | | (2,514) | (2,514) |
| Balance February 28, 1982 | 99,572 | 110,789 | (22,157) | 54,512 | 742,356 | 985,072 |
| Net earnings | | | | | 85,762 | 85,762 |
| Cash dividends: | | | | | | |
| Preferred stock | | | | | (7,478) | (7,478) |
| Common stock—\$2.88 per share | | | | | (41,018) | (41,018) |
| Issuance of 2,419 preferred shares for conversion of debentures | 242 | | | (11) | | 231 |
| Conversion of preferred stock: | | | | | | |
| Series D—90,005 shares | (9,000) | 1,460 | | 7,540 | | — |
| Exercise of stock options: | | | | | | |
| Common—146,549 shares | | 1,099 | | 4,844 | | 5,943 |
| Purchase of 115,800 common treasury shares | | | (4,525) | | | (4,525) |
| Investment valuation allowance | | | | | 247 | 247 |
| Foreign currency translations | | | | | (1,003) | (1,003) |
| Balance February 28, 1983 | <u>\$ 90,814</u> | <u>\$113,348</u> | <u>\$(26,682)</u> | <u>\$66,885</u> | <u>\$778,866</u> | <u>\$1,023,231</u> |

See accompanying notes to consolidated financial statements.

1. Significant Accounting Policies

The company and its subsidiaries employ generally accepted accounting principles to present fairly their consolidated financial position, results of operations, and changes in financial position. The major accounting policies of the company are set forth below.

Principles of Consolidation—The consolidated financial statements include the accounts of the company and all domestic and foreign subsidiaries, the majority of which are wholly owned. All material intercompany transactions have been eliminated in consolidation.

Fiscal Year—The company's fiscal year ends on the last day of February. In this report, reference to fiscal 1983 refers to the fiscal year ended February 28, 1983, fiscal 1982 refers to the fiscal year ended February 28, 1982, and fiscal 1981 refers to the fiscal year ended February 28, 1981.

Marketable Securities—Marketable securities are stated at cost which approximates market.

Inventories—Inventories are stated at the lower of cost (first-in, first-out) or market, except for most footwear manufacturing and certain general retail inventories which are valued on the "last-in, first-out" method of inventory valuation.

Marketable Investment Securities—Marketable investment securities consist of bonds and preferred stocks held for long-term investment. Dividend and interest income are accrued as earned. The cost of marketable investment securities sold is determined on the specific identification method.

Marketable equity securities (preferred stocks) are carried at the lower of cost or market. A valuation allowance, representing the excess of cost over market of these equity securities, is included in stockholders' equity, when applicable. Other marketable investment securities (bonds) are carried at cost as there is no indication of a permanent impairment in value in any portion of the portfolio and there is no intention to liquidate the securities portfolio at less than cost.

Property, Plant and Equipment—Property, plant and equipment is stated at cost. Facilities and equipment leased under capital leases are included in property, plant and equipment with the corresponding principal payments carried in obligations under capital leases. Expenditures for improvements are capitalized, while normal repairs and maintenance are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are reflected in operations.

Depreciation—For financial reporting purposes, the company employs both accelerated and straight-line methods of computing depreciation. Amortization of assets recorded under capital leases is included in depreciation expense. Depreciation expense is computed based on the estimated useful lives of the respective assets which generally range from 15 to 40 years for buildings and improvements, and from 3 to 20 years for machinery and equipment. Approximately 82%, 84% and 87% of depreciation expense was computed on the straight-line method in fiscal 1983, 1982 and 1981, respectively.

Excess of Cost Over Fair Value of Net Assets Acquired—The excess of cost over fair value of net assets of companies acquired is being amortized on a straight-line basis, generally over 40 years.

Start-Up Expenses—Start-up expenses of new facilities are charged to operations in the fiscal year incurred.

Pension Plans—The company's policy with respect to pension plans is to fund pension costs accrued, and to amortize prior service costs, generally over 30 years.

Income Taxes—Investment tax credits are reflected as a reduction of Federal income taxes in the period in which qualified property is placed in service. It is the company's intent that the undistributed earnings of subsidiaries will either be reinvested in the subsidiaries or distributed tax-free to the parent company. Accordingly, no provision has been made for income taxes on such undistributed earnings.

2. Accounting Changes

In fiscal 1982, the company adopted the provisions of Statements No. 43 (Accounting for Compensated Absences) and No. 52 (Foreign Currency Translation) of the Financial Accounting Standards Board (FASB).

In accordance with Statement No. 43, the company adjusted its vacation accrual to cover all employees, whereas, previously this accrual applied primarily to employees involved in production operations. Accordingly, fiscal 1981 operating results were restated. The effect of the restatement on fiscal 1981, including the cumulative effect on all periods prior to fiscal 1981 amounting to \$2,556 or \$0.16 per share, resulted in a reduction in net earnings of \$3,127 or \$0.19 per share.

The net effect of changes in accounting for foreign currency translations was immaterial and, accordingly, no adjustment was made to retained earnings at the beginning of fiscal 1982. In fiscal 1982, the adoption of Statement No. 52 resulted in a net unrealized loss of \$2,514 which was charged to retained earnings.

3. Business Combinations

On December 1, 1980, the company purchased the outstanding stock of Broyhill Furniture Industries, Inc., a manufacturer of household furniture and other furniture related products. The acquisition price of \$151,599, including capitalized expenses, was paid by the issuance of five-year, 10% notes, totaling \$43,581, the issuance of a short-term, 10% note totaling \$59,728, which matured on January 12, 1981, and the remainder in cash. The total acquisition cost exceeded the fair value of the net assets acquired by \$19,314.

The following unaudited summary, prepared on a pro forma basis, combines the consolidated results of operations of the company for fiscal 1981 with those of Broyhill Furniture Industries, Inc. for its forty-one weeks ended November 29, 1980.

| | 1981 |
|--------------------|-------------|
| Net sales | \$2,564,351 |
| Net earnings | \$123,562 |
| Earnings per share | \$7.56 |

The pro forma data have been adjusted, net of income tax effects, to reflect interest expense and depreciation and amortization of the fair market value of the acquired assets and the excess of cost over fair value of the net assets acquired.

4. Inventories

Inventories are summarized as follows:

| | 1983 | 1982 | 1981 |
|--------------------|-------------------------|------------------|------------------|
| Retail merchandise | \$288,165 | \$298,009 | \$273,853 |
| Finished products | 178,487 | 193,686 | 169,694 |
| Work in process | 55,625 | 60,455 | 59,443 |
| Raw materials | 120,037 | 142,034 | 130,524 |
| | <u>\$642,314</u> | <u>\$694,184</u> | <u>\$633,514</u> |

All of the major categories of inventory include certain items priced on the "last-in, first-out" method. Had the "first-in, first-out" method been applied to all inventories, they would have been stated at approximately \$674,484, \$726,249 and \$664,927 at February 28, 1983, 1982 and 1981, respectively.

5. Marketable Investment Securities

Marketable investment securities consisted of the following:

| | 1983 | 1982 | 1981 |
|---|------------------------|-----------------|-----------------|
| Marketable equity securities, at cost | \$ 2,973 | \$ 3,586 | \$ 3,586 |
| Less valuation allowance | — | 247 | 754 |
| Marketable equity securities, at market | 2,973 | 3,339 | 2,832 |
| Bonds, at cost | 8,226 | 11,093 | 11,466 |
| | <u>\$11,199</u> | <u>\$14,432</u> | <u>\$14,298</u> |

The portfolio of marketable equity securities includes gross unrealized gains of \$2,550 and unrealized losses of \$432 at February 28, 1983. Net realized gains on the sale of securities, after applicable taxes, included in the determination of net earnings amounted to \$63 for fiscal 1983. There were no realized gains or losses in fiscal 1982. Net realized losses on the sale of securities, after applicable taxes, included in the determination of net earnings amounted to \$393 for fiscal 1981.

6. Lines of Credit

Average short-term borrowings outstanding during fiscal 1983, 1982 and 1981 were \$25,000, \$39,000 and \$50,600 with a weighted average interest rate thereon of 11.6%, 16.5% and 12.3%, respectively. Maximum short-term borrowings at any month end were \$52,300, \$64,500 and \$80,300 in fiscal 1983, 1982 and 1981, respectively.

The company amended its credit agreement effective March 1, 1983, enabling it to borrow up to \$100,000 in domestic or Euro-Dollar loans through February 28, 1987. Borrowings outstanding as of February 28, 1987 are repayable from that date through February 28, 1991. Domestic interest rates will approximate bank prime while rates for Euro-Dollar borrowings will approximate the London Inter-Bank Offering Rate plus 0.375%. The amended agreement requires the company to pay a commitment fee of 0.25% per annum. There were no borrowings outstanding under the amended agreement or prior agreements at February 28, 1983, 1982 or 1981.

The company also maintains other bank lines of credit which provide added credit availability and support for the sale of commercial paper. On February 28, 1983, these unused lines of credit were \$92,500.

7. Long-Term Debt

Long-term debt consisted of the following:

| | <u>1983</u> | <u>1982</u> | <u>1981</u> |
|--|-------------------------|------------------|------------------|
| 14¼% promissory notes due February 15, 1991 | \$100,000 | \$100,000 | \$ — |
| Commercial paper | — | — | 80,298 |
| 10% promissory installment notes, payable \$8,716 annually through 1985 | 26,148 | 34,864 | 43,581 |
| 4⅞% promissory installment notes, payable \$1,875 annually through 1989, and balance in 1990 | 25,625 | 27,500 | 29,375 |
| 8⅝% promissory installment note, payable \$1,000 annually through 1993, and balance in 1994 | 16,000 | 17,000 | 18,000 |
| 7¼% to 12% industrial revenue bonds maturing in varying amounts through 2011 | 28,976 | 18,476 | 12,745 |
| 5¼% convertible subordinated debentures | — | 59 | 79 |
| 4⅞% convertible subordinated debentures due January 1, 1998 | 294 | 514 | 946 |
| Other debt at 3% to 12% interest rates, payable in varying amounts through 2006 | 13,334 | 16,508 | 18,708 |
| | 210,377 | 214,921 | 203,732 |
| Less current maturities | 14,529 | 14,053 | 12,958 |
| Less present value adjustment | 2,507 | 2,814 | 3,566 |
| | <u>\$193,341</u> | <u>\$198,054</u> | <u>\$187,208</u> |

The outstanding commercial paper balance at February 28, 1981, amounting to \$80,298, was classified as long-term debt because a portion of the proceeds of the \$100,000 promissory notes was used to redeem this commercial paper.

The present value adjustment relates to purchase adjustments of the long-term debt assumed in the acquisition of Ethan Allen, Inc.

Maturities of long-term debt are \$14,529, \$13,622, \$15,273, \$5,138 and \$6,319 for fiscal years 1984 through 1988, respectively.

The 4⅞% convertible subordinated debentures are convertible into the company's Series D preferred stock prior to maturity at \$105.50 per share, subject to anti-dilution provisions. They are subordinated as to principal and interest to all senior indebtedness, are redeemable at the company's option prior to maturity at prices ranging from 102.375% to 100% of the principal amount, and are subject to annual sinking fund payments beginning in 1984.

The various loan agreements contain restrictions relating to the financial condition of the company. The most restrictive of these covenants require that the working capital ratio be at least 2.0 to 1, tangible net worth be at least \$700,000, retained earnings be at least \$43,810, funded indebtedness not exceed 60% of tangible net worth or exceed 50% of net tangible assets, debt secured by liens not exceed 15% of tangible net worth, and domestic subsidiary borrowing not exceed \$50,000.

| 8. Obligations Under Capital Leases | <p>The amount capitalized under capital leases is the lesser of the present value of the minimum lease payments or the fair value of the leased properties at the beginning of the respective lease terms. Generally, interest rates applicable to capital leases range between 4¼% and 16¼% for leased facilities and between 9¼% and 27% for leased equipment. Obligations under capital leases amounted to \$79,738, \$82,772 and \$85,770 at February 28, 1983, 1982 and 1981, respectively. Maturities of these obligations are \$5,953, \$5,681, \$5,423, \$5,581 and \$5,532 for fiscal years 1984 through 1988, respectively.</p> | | | | | | | | | | | | | | |
|--|---|--|-------------------------|-----------------------|--|---------|---------|---------------------|---------|---|-----|-------------------------------|------------------|--|------------------|
| 9. Capitalized Interest | <p>During fiscal 1983, 1982 and 1981, the company capitalized \$139, \$581 and \$832, respectively, of interest expense incurred during the period of time required to prepare certain assets for their intended use. As a result, interest expense, as reported in the financial statements, has been reduced and property, plant and equipment has been increased by the amount of interest capitalized.</p> | | | | | | | | | | | | | | |
| 10. Preferred Stock | <p>The company's preferred stock is issuable in series. At February 28, 1983, 1982 and 1981, the outstanding preferred stock consisted of 908,136, 995,722 and 1,014,399 shares, respectively, of Series D \$7.75 cumulative convertible with stated and involuntary liquidating value of \$100.00 per share.</p> <p>Each share of the Series D preferred stock is convertible into 2.1621 shares of the company's common stock. The Series D preferred stock may be redeemed on or after January 29, 1989, at \$104.75 per share, decreasing to \$100.00 per share in 1994. Subject to the satisfaction of certain conditions relating to common stock dividends paid, the Series D preferred stock may be redeemed on or after January 29, 1986 at \$107.75 per share, decreasing to \$100.00 per share in 1994.</p> <p>At February 28, 1983, 2,786 shares of Series D preferred stock were reserved for the conversion of the 4⅞% convertible subordinated debentures.</p> | | | | | | | | | | | | | | |
| 11. Common Stock | <p>Shares of common stock were reserved for the following purposes at February 28, 1983:</p> <table data-bbox="584 1318 1522 1549"> <thead> <tr> <th></th><th style="text-align: right;"><u>Number of Shares</u></th></tr> </thead> <tbody> <tr> <td>Common stock options:</td><td></td></tr> <tr> <td> Granted</td><td style="text-align: right;">418,069</td></tr> <tr> <td> Available for grant</td><td style="text-align: right;">251,885</td></tr> <tr> <td>Restricted stock plan of pooled company</td><td style="text-align: right;">133</td></tr> <tr> <td>Conversion of preferred stock</td><td style="text-align: right;"><u>1,969,504</u></td></tr> <tr> <td></td><td style="text-align: right;"><u>2,639,591</u></td></tr> </tbody> </table> <p>On June 28, 1982, the stockholders approved an amendment to the 1980 Stock Option Plan increasing the number of shares authorized for issuance from 325,000 shares to 525,000 shares of the common stock of the company.</p> <p>Under the company's stock option plans, certain key employees may be granted incentive options, non-qualified options, stock appreciation rights, or combinations thereof. Non-qualified options and stock appreciation rights granted under the 1977 Plan may not be less than 85% of the fair market value (100% as to incentive options and related stock appreciation rights) of the common stock on the date of grant.</p> | | <u>Number of Shares</u> | Common stock options: | | Granted | 418,069 | Available for grant | 251,885 | Restricted stock plan of pooled company | 133 | Conversion of preferred stock | <u>1,969,504</u> | | <u>2,639,591</u> |
| | <u>Number of Shares</u> | | | | | | | | | | | | | | |
| Common stock options: | | | | | | | | | | | | | | | |
| Granted | 418,069 | | | | | | | | | | | | | | |
| Available for grant | 251,885 | | | | | | | | | | | | | | |
| Restricted stock plan of pooled company | 133 | | | | | | | | | | | | | | |
| Conversion of preferred stock | <u>1,969,504</u> | | | | | | | | | | | | | | |
| | <u>2,639,591</u> | | | | | | | | | | | | | | |

Options and stock appreciation rights granted under the 1980 Plan may not be less than 100% of the fair market value of the common stock on the date of grant. All options which have been granted, incentive or non-qualified, were at 100% of fair market value on the date of grant. Incentive options and non-qualified options expire ten years after the date of grant. At February 28, 1983, no stock appreciation rights have been granted. No additional options may be granted under the 1972 Plan.

At February 28, 1983, information regarding options granted but not exercised under the three plans was as follows:

| | Option Shares Outstanding | Dates of Grant | Price Range |
|-----------|------------------------------|--|---------------------|
| 1972 Plan | 21,421 | September 5, 1974 — October 15, 1981 | \$20.50 - \$48.00 |
| 1977 Plan | 123,612 | November 17, 1978 — January 3, 1983 | \$35.00 - \$60.375 |
| 1980 Plan | 273,036 | December 19, 1980 — December 17, 1982 | \$37.125 - \$58.625 |

Changes in options granted are summarized as follows:

| | 1983 | | 1982 | | 1981 | |
|----------------------------|-----------|---------------|----------|---------------|----------|---------------|
| | Shares | Average Price | Shares | Average Price | Shares | Average Price |
| Beginning of year | 522,393 | \$42.19 | 394,334 | \$35.49 | 371,821 | \$34.29 |
| Granted | 61,300 | 51.74 | 237,550 | 49.79 | 63,750 | 42.28 |
| Exercised | (146,549) | 34.92 | (79,930) | 32.75 | (29,780) | 34.66 |
| Cancelled | (19,075) | 43.55 | (29,561) | 39.38 | (11,457) | 36.46 |
| End of year | 418,069 | \$46.08 | 522,393 | \$42.19 | 394,334 | \$35.49 |
| Exercisable at end of year | 102,317 | | 112,805 | | 142,882 | |

12. Income Taxes

Income tax expense was composed of the following:

| | 1983 | 1982 | 1981 |
|---------------------------------|----------|-----------|-----------|
| Current: | | | |
| Federal | \$63,955 | \$ 83,335 | \$ 96,699 |
| State and local | 9,505 | 11,765 | 12,196 |
| Foreign | 2,546 | 3,807 | 1,475 |
| | 76,006 | 98,907 | 110,370 |
| Deferred | 4,108 | 5,748 | 448 |
| | \$80,114 | \$104,655 | \$110,818 |
| Investment and jobs tax credits | \$ 2,450 | \$ 3,079 | \$ 3,023 |

The following table reconciles the differences between the Federal corporate statutory rate and the company's effective income tax rate:

| | 1983 | 1982 | 1981 |
|---|-------|-------|-------|
| Federal corporate statutory rate | 46.0% | 46.0% | 46.0% |
| State and local income taxes, net of Federal tax benefit | 3.0 | 2.9 | 2.8 |
| Investment and jobs tax credits | (1.5) | (1.4) | (1.2) |
| Foreign taxes, including foreign currency translation effects | 0.6 | (0.2) | 0.2 |
| Other | 0.2 | (0.4) | — |
| Effective income tax rate | 48.3% | 46.9% | 47.8% |

Certain items are recognized for income tax purposes in years other than those in which they are reported in the consolidated financial statements. Future income tax benefits and deferred credits at February 28, 1983, 1982 and 1981 are included in the accompanying consolidated balance sheet, as follows:

| | 1983 | 1982 | 1981 |
|---|-------------------|--------------|-----------------|
| Prepaid expenses and other current assets | \$ 6,694 | \$ 7,427 | \$ 9,974 |
| Other long-term liabilities | (10,759) | (7,384) | (4,183) |
| | <u>\$ (4,065)</u> | <u>\$ 43</u> | <u>\$ 5,791</u> |

The Federal income tax returns of the company and its major subsidiaries for the taxable years of 1979 and 1980 are currently in the process of examination. Management is of the opinion that the results of these examinations will have no material effect on the company's consolidated financial position or results of operations.

13. Pension Plans

The company and its subsidiaries have several pension plans covering substantially all employees, including certain employees in foreign countries. Total pension expense was \$19,400, \$20,100 and \$17,000 in fiscal 1983, 1982 and 1981, respectively. The company makes annual contributions to the plans equal to the amounts accrued for pension expense. Accumulated plan benefits and plan net assets for the company's defined benefit plans as of the most recent valuation dates are presented below:

| | 1983 | 1982 | 1981 |
|---|------------------|------------------|------------------|
| Actuarial present value of accumulated plan benefits: | | | |
| Vested | \$128,908 | \$131,186 | \$128,305 |
| Nonvested | 9,970 | 11,388 | 16,162 |
| | <u>\$138,878</u> | <u>\$142,574</u> | <u>\$144,467</u> |
| Net assets (at market value) available for benefits | <u>\$112,307</u> | <u>\$101,310</u> | <u>\$ 86,756</u> |

The weighted average assumed rate of return used in determining the actuarial present value of accumulated plan benefits was 7.6%, 6.7% and 6.3% in fiscal 1983, 1982 and 1981, respectively.

14. Lease Commitments

Substantially all of the company's retail outlets and certain other real properties and equipment are operated under lease agreements expiring at various dates through the year 2022. Leases covering retail outlets and equipment generally require, in addition to stated minimums, contingent rentals based on retail sales and equipment usage. Generally, the leases provide for renewal for various periods at stipulated rates.

Assets recorded under capital leases were as follows:

| | 1983 | 1982 | 1981 |
|--------------------------|------------------|------------------|------------------|
| Land | \$ 902 | \$ 1,047 | \$ 1,068 |
| Buildings | 90,782 | 89,596 | 88,092 |
| Machinery and equipment | 11,949 | 11,812 | 12,892 |
| | <u>103,633</u> | <u>102,455</u> | <u>102,052</u> |
| Accumulated depreciation | 37,119 | 32,513 | 28,535 |
| | <u>\$ 66,514</u> | <u>\$ 69,942</u> | <u>\$ 73,517</u> |

Future minimum lease payments under capital leases, reduced by minimum rentals from subleases of \$2,249, at February 28, 1983 aggregate \$149,125 of which \$79,738 is included in obligations under capital leases and current maturities, \$55,222 represents interest and the balance represents other costs of the leases including taxes, insurance and maintenance. Annual payments under capital leases are \$14,218, \$13,286, \$12,450, \$12,078, and \$11,478 for fiscal years 1984 through 1988, respectively.

Total rent expense was as follows:

| | 1983 | 1982 | 1981 |
|--|-----------------|-------------|-------------|
| Basic rentals under operating leases | \$42,379 | \$42,569 | \$36,537 |
| Contingent rentals, operating and capital leases | 30,105 | 28,882 | 25,178 |
| | 72,484 | 71,451 | 61,715 |
| Less sublease rentals | 2,154 | 1,944 | 1,524 |
| | \$70,330 | \$69,507 | \$60,191 |

Included in rent expense above is the cost of services provided by lessors of leased retail departments, estimated to aggregate \$12,800, \$13,200 and \$10,400 in fiscal years 1983, 1982 and 1981, respectively.

Future minimum lease payments under operating leases, reduced by minimum rentals from subleases of \$5,246, at February 28, 1983 aggregate \$228,958. Annual payments under operating leases are \$35,095, \$31,364, \$28,050, \$25,249 and \$22,113 for fiscal years 1984 through 1988, respectively.

The company has also guaranteed leases of certain retail outlets of customers which, at February 28, 1983, aggregated approximately \$1,900 based on minimum rentals.

15. Litigation

The company is a defendant and may become a defendant in a number of pending or threatened legal proceedings in the ordinary course of business. In the opinion of management, the ultimate liability, if any, of the company from all such proceedings will not have a material adverse effect upon the consolidated financial position or results of operations.

16. Earnings Per Share

Earnings per share are based on the weighted average number of shares of common stock and common stock equivalents outstanding during the year, plus those common shares which would have been issued if conversion of all preferred stock and convertible debentures had taken place at the beginning of each year or since date of issuance. Stock options, the exercise of which would result in dilution of earnings per share, are considered common stock equivalents. Net earnings for these computations are increased by the net interest expense on the convertible debentures. Primary earnings per share do not differ significantly from fully diluted earnings per share.

17. Business Segment Information

The company's four business segments are Apparel Manufacturing, General Retail Merchandising, Footwear Manufacturing and Retailing, and Furniture and Home Furnishings. Specific information relating to the operating companies and their products, which comprise each segment, is included on page 1 and on pages 4 through 11.

Summarized financial information by business segment is as follows:

| | <u>1983</u> | <u>1982</u> | <u>1981</u> |
|--------------------------------------|--------------------|--------------------|--------------------|
| Net sales to unaffiliated customers: | | | |
| Apparel | \$ 877,341 | \$ 899,161 | \$ 850,970 |
| General Retail | 685,664 | 672,137 | 645,940 |
| Footwear | 546,041 | 587,035 | 558,291 |
| Furniture | 457,560 | 515,436 | 313,255 |
| Total | <u>\$2,566,606</u> | <u>\$2,673,769</u> | <u>\$2,368,456</u> |
| Operating earnings: | | | |
| Apparel | \$ 94,843 | \$ 104,824 | \$ 109,413 |
| General Retail | 22,346 | 22,832 | 27,135 |
| Footwear | 57,114 | 78,381 | 83,600 |
| Furniture | 28,653 | 55,279 | 39,857 |
| | <u>202,956</u> | <u>261,316</u> | <u>260,005</u> |
| Corporate expenses and interest cost | <u>(37,080)</u> | <u>(38,046)</u> | <u>(27,984)</u> |
| Earnings before income taxes | <u>\$ 165,876</u> | <u>\$ 223,270</u> | <u>\$ 232,021</u> |
| Identifiable assets at year end: | | | |
| Apparel | \$ 418,563 | \$ 444,948 | \$ 441,429 |
| General Retail | 343,041 | 352,206 | 330,064 |
| Footwear | 280,185 | 304,186 | 289,943 |
| Furniture | 406,527 | 414,823 | 401,467 |
| | <u>1,448,316</u> | <u>1,516,163</u> | <u>1,462,903</u> |
| Corporate assets | <u>106,659</u> | <u>22,787</u> | <u>9,203</u> |
| Total | <u>\$1,554,975</u> | <u>\$1,538,950</u> | <u>\$1,472,106</u> |
| Depreciation expense: | | | |
| Apparel | \$ 9,203 | \$ 8,968 | \$ 7,953 |
| General Retail | 11,565 | 11,575 | 10,780 |
| Footwear | 7,584 | 7,274 | 6,798 |
| Furniture | <u>12,307</u> | <u>10,692</u> | <u>6,526</u> |
| Capital expenditures: | | | |
| Apparel | \$ 9,870 | \$ 9,912 | \$ 23,448 |
| General Retail | 9,308 | 10,340 | 24,825 |
| Footwear | 7,831 | 10,813 | 9,604 |
| Furniture | <u>12,116</u> | <u>20,165</u> | <u>9,932</u> |

The above figures included under 1981, where applicable, have been restated in accordance with the Financial Accounting Standards Board Statement No. 43.

Sales between business segments, which account for less than 1% of the sales of any one business segment, are considered immaterial and are netted against the sales of the respective segment. Operating earnings of the business segment are its sales less all operating expenses. Minority interests in certain subsidiaries are immaterial and have been included in corporate expenses and interest cost.

Identifiable assets are those assets used by each segment in its operations. Corporate assets consisted primarily of cash, marketable securities and marketable investment securities.

Substantially all of the company's sales are made to unaffiliated customers and no one customer accounted for 10% or more of consolidated sales. Foreign operations are not material in relation to the consolidated financial position or results of operations.

**18. Inflation Accounting
(Unaudited)**

The cumulative effect of inflation has had a substantial impact on the company in recent years. Inflation affects the company in many ways—particularly the costs of acquiring inventory and the costs of replacing property, plant and equipment. The company's ability to react to inflation depends, among other things, on its ability to compensate for increased costs with increased sales prices, the extent to which productivity can be increased and its method of financing the enterprise.

The Financial Accounting Standards Board (FASB) Statement No. 33, "Financial Reporting and Changing Prices," requires the presentation of a statement of earnings that is derived by restating cost of goods sold, and depreciation and amortization to dollars, whose purchasing power is equivalent to the dollar for fiscal year ended February 28, 1983, as measured by the Consumer Price Index for All Urban Consumers (CPI-U) (the Constant Dollar method). The CPI-U is an index used to measure the average change in prices over time of consumer durable and non-durable goods and services.

Under the Constant Dollar method, cost of sales are adjusted to a common unit of measure. This adjustment reflects a charge for inflation for the period inventory was held prior to sale. Cost of sales is restated for changes in the levels of inventories priced under the FIFO method of inventory valuation.

The adjustment to depreciation reflects a charge for inflation from the period in which plant and equipment were purchased to the present. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

The FASB encourages "experimentation within the guidelines of this statement and the development of new techniques that fit the particular circumstances of the enterprise." Management supports this experimentation and feels that more emphasis on financial data adjusted for the effects of inflation on a particular enterprise may provide financial statement users a more reliable basis for comparison among companies within the same industry.

The company recognizes that inflation has had an impact on the reported figures; however, the company also believes that the CPI-U can produce results as misleading as the historic figures presented in the financial statements. Accordingly, the disclosures of certain information in accordance with FASB Statement No. 33 was prepared using the CPI-U as it relates to the respective segments of the company. However, since the FASB could not

assure the company that the Securities and Exchange Commission would accept these computations, a dual presentation is made also showing the effect of using the CPI-U for all industries, including those in which the company does not compete.

Current cost measures the effect of specific price changes on inventory, and property, plant and equipment as a result of inflation. The current cost of inventories owned is the current cost of purchasing the goods concerned or the current cost of the resources required to produce the goods concerned. The current cost of inventories was determined utilizing the FIFO method of inventory valuation adjusted for unrecognized price increases through application of the Bureau of Labor Statistics Producer Price Index (BLS-PPI) for those inventory items applicable to the company.

The current cost of property, plant and equipment was determined using the appropriate BLS-PPI, the Marshall Valuation Service Building Cost Index, and management's estimates and appraisals. The current cost of property measures costs of assets having the same or similar service potential as those owned by the company. Current cost does not measure owned assets against those technologically superior assets which may be available and which also may require capital outlays significantly greater than the current costs of assets presently owned by the company.

The purpose of current cost restatement is to provide management with a basis for estimating the impact of price changes on future net income and potential cash flow. However, current cost data does not reflect specific plans for replacement of property, nor does it purport to represent precise measurements of assets and expenses, but rather approximations of price changes experienced by the company. The adjustment to cost of sales was determined on the same basis as calculated for constant dollars. The adjustment reflects the change in beginning and ending inventory levels as adjusted for increases in specific prices of inventory. The adjustment to depreciation reflects the increased expense associated with the current cost valuation of property, plant and equipment. Depreciation was computed using the same depreciation methods and depreciable life assumptions utilized for the conventional financial statements.

Inflation also affects monetary assets, such as cash and receivables, and monetary liabilities, such as debt, payables, and deferred income taxes. Any company in a net monetary borrowing position can benefit during periods of inflation because dollars with lower purchasing power will be used to satisfy obligations in future years. Holding monetary assets in a period of inflation results in a purchasing power loss.

The five-year comparison shows the effect of adjusting required historical data for the effects of inflation on both a constant dollar and current cost basis. Constant dollar cost is presented showing the results of using the CPI-U as it relates to the specific segments of the company.

The provision for income taxes remains unchanged because income tax laws do not allow the company to claim tax deductions related to these adjustments. As a result, the adjustments made for inflation are not tax effected. Thus, the effective tax rates and net earnings on an inflation adjusted basis are distorted.

All comparisons between the conventional financial statements and the required supplemental disclosures must be viewed with caution because of the many assumptions inherent in these estimates.

The summary consolidated statement of earnings adjusted for inflation for the year ended February 28, 1983, is as follows:

| | As Reported in Financial Statements (Historical Dollars) | Adjusted for General Inflation (Constant Dollars) | | Adjusted for Specific Price Changes (Current Cost) |
|--|--|---|-------------------|---|
| | | Company Segments | All Industries | |
| Net sales and other income | \$2,596,385 | \$2,596,385 | \$2,596,385 | \$2,596,385 |
| Cost of sales (a) | 1,743,116 | 1,757,711 | 1,770,199 | 1,744,677 |
| Selling, general and adminis- trative expenses (a) | 610,852 | 610,852 | 610,852 | 610,852 |
| Depreciation expense | 41,469 | 51,214 | 63,899 | 64,694 |
| Interest expense | 35,072 | 35,072 | 35,072 | 35,072 |
| Income taxes | 80,114 | 80,114 | 80,114 | 80,114 |
| | <u>2,510,623</u> | <u>2,534,963</u> | <u>2,560,136</u> | <u>2,535,409</u> |
| Net earnings | <u>\$ 85,762</u> | <u>\$ 61,422</u> | <u>\$ 36,249</u> | <u>\$ 60,976</u> |
| Earnings per share | <u>\$5.22</u> | <u>\$3.74</u> | <u>\$2.21</u> | <u>\$3.71</u> |
| Effective income tax rate | <u>48.3%</u> | <u>56.6%</u> | <u>68.8%</u> | <u>56.8%</u> |
| Gain in purchasing power of net monetary assets held | | | <u>\$5,391</u> | <u>\$5,391</u> |
| Effect of increases in general price level | | | | \$ 51,316 |
| Increases in specific prices (current cost) of inventory and property, plant and equipment (b) | | | | <u>\$ 8,329</u> |
| Excess of increase in general price level over increase in current cost | | | | <u>\$ 42,987</u> |

(a) Excludes depreciation and amortization expense.

(b) The current cost of inventory was \$669,457 at February 28, 1983 and \$735,934 at February 28, 1982. The current cost of property, plant and equipment, net of accumulated depreciation and amortization, was \$745,104 at February 28, 1983 and \$714,849 at February 28, 1982.

The following five-year comparison shows selected historical financial data adjusted for the effects of changing prices:

| | 1983 | 1982 | 1981 | 1980 | 1979 |
|---|--------------|--------------|--------------|--------------|--------------|
| Net sales and other income: | | | | | |
| Historic dollars | \$2,596,385 | \$2,702,570 | \$2,395,875 | \$2,048,267 | \$1,870,961 |
| Constant dollars: | | | | | |
| Company segments | 2,596,385 | 2,747,468 | 2,559,107 | 2,352,035 | 2,247,760 |
| All industries | 2,596,385 | 2,848,522 | 2,771,362 | 2,679,424 | 2,742,316 |
| Net earnings: | | | | | |
| Historic dollars | 85,762 | 118,165 | 121,203 | 106,706 | |
| Constant dollars: | | | | | |
| Company segments | 61,422 | 75,857 | 84,211 | | |
| All industries | 36,249 | 40,174 | 44,696 | 38,517 | |
| Current cost | 60,976 | 82,824 | 62,251 | 76,744 | |
| Earnings per share: | | | | | |
| Historic dollars | 5.22 | 7.23 | 7.42 | 7.35 | |
| Constant dollars: | | | | | |
| Company segments | 3.74 | 4.62 | 5.15 | | |
| All industries | 2.21 | 2.45 | 2.73 | 2.65 | |
| Current cost | 3.71 | 5.05 | 3.81 | 5.28 | |
| Cash dividends declared per common share: | | | | | |
| Historic dollars | 2.88 | 2.88 | 2.64 | 2.35 | 2.10 |
| Constant dollars— | | | | | |
| all industries | 2.88 | 3.04 | 3.05 | 3.07 | 3.08 |
| Net assets at year end: | | | | | |
| Historic dollars | 1,023,231 | 985,072 | 910,873 | 836,313 | |
| Constant dollars— | | | | | |
| all industries | 1,289,923 | 1,230,428 | 1,136,337 | 1,076,985 | |
| Current cost | 1,384,509 | 1,324,563 | 1,205,824 | 1,179,406 | |
| Excess of increase in general price level over increase in current cost | 42,987 | 2,933 | 20,507 | | |
| Gain (loss) in purchasing power of net monetary assets | 5,391 | 14,063 | 11,063 | (1,253) | |
| Market price at year end: | | | | | |
| Historic dollars | 63.00 | 40.75 | 49.38 | 38.00 | 37.25 |
| Constant dollars— | | | | | |
| all industries | \$ 63.00 | \$ 42.95 | \$ 57.12 | \$ 49.71 | \$ 54.60 |
| Average Consumer Price Index: | | | | | |
| Composite of | | | | | |
| company segments | 189.7 | 186.6 | 177.6 | 165.2 | 157.9 |
| All industries | <u>290.8</u> | <u>275.9</u> | <u>251.4</u> | <u>222.3</u> | <u>198.4</u> |

**19. Quarterly Financial Information
(Unaudited)**

The following quarterly information includes all adjustments necessary for a fair presentation. Prior to restatement for FASB Statement No. 43, fourth quarter 1981 gross profit, net earnings and earnings per share amounts were \$222,228, \$38,521 and \$2.36, respectively.

| | First | Second | Third | Fourth |
|-------------------------------------|------------------|------------------|------------------|------------------|
| Net Sales: | | | | |
| 1983 | \$609,268 | \$665,533 | \$688,454 | \$603,351 |
| 1982 | 639,432 | 713,664 | 716,995 | 603,678 |
| 1981 | 532,392 | 599,125 | 606,949 | 629,990 |
| Gross Profit: | | | | |
| 1983 | \$190,620 | \$200,691 | \$214,871 | \$200,897 |
| 1982 | 203,370 | 222,964 | 228,930 | 198,136 |
| 1981 | 166,535 | 190,318 | 198,016 | 221,952 |
| Net Earnings: | | | | |
| 1983 | \$16,174 | \$19,892 | \$25,147 | \$24,549 |
| 1982 | 25,375 | 32,308 | 31,216 | 29,716 |
| 1981 | 23,025 | 29,778 | 33,006 | 35,394 |
| Earnings Per Share: | | | | |
| 1983 | \$0.98 | \$1.22 | \$1.54 | \$1.48 |
| 1982 | 1.55 | 1.97 | 1.90 | 1.81 |
| 1981 | 1.41 | 1.82 | 2.02 | 2.17 |
| Common Dividends Paid Per Share: | | | | |
| 1983 | \$0.72 | \$0.72 | \$0.72 | \$0.72 |
| 1982 | 0.72 | 0.72 | 0.72 | 0.72 |
| 1981 | 0.66 | 0.66 | 0.66 | 0.66 |

**Independent Accountants'
Report**

The Board of Directors and Stockholders
INTERCO INCORPORATED:

We have examined the consolidated balance sheets of INTERCO INCORPORATED and subsidiaries as of February 28, 1983, 1982 and 1981 and the related consolidated statements of earnings, stockholders' equity, and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the aforementioned consolidated financial statements present fairly the financial position of INTERCO INCORPORATED and subsidiaries at February 28, 1983, 1982 and 1981 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis except for the change, with which we concur, in the method of accounting for compensated absences as described in Note 2 to the consolidated financial statements.

Peat, Marwick, Mitchell & Co.

St. Louis, Missouri
April 11, 1983

Five Year Consolidated Financial Review

(Dollars in thousands except per share data)

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| Years Ended | 1983 | 1982 | 1981 | 1980 | 1979 |
|--|--------------------|-------------|-------------|-------------|-------------|
| For The Year | | | | | |
| Summary of operations: | | | | | |
| Net sales | \$2,566,606 | \$2,673,769 | \$2,368,456 | \$2,024,307 | \$1,851,458 |
| Cost of sales | 1,759,527 | 1,820,369 | 1,591,635 | 1,379,768 | 1,266,618 |
| Interest expense | 35,072 | 37,201 | 20,284 | 9,316 | 9,570 |
| Earnings before income taxes | 165,876 | 223,270 | 232,021 | 205,735 | 186,869 |
| As a percent of sales | 6.5% | 8.4% | 9.8% | 10.2% | 10.1% |
| Income taxes | 80,114 | 104,655 | 110,818 | 99,029 | 94,293 |
| Net earnings | 85,762 | 118,615 | 121,203 | 106,706 | 92,576 |
| As a percent of sales | 3.3% | 4.4% | 5.1% | 5.3% | 5.0% |
| Net earnings applicable to common stock | 85,774 | 118,642 | 121,272 | 106,719 | 92,576 |
| Per share of common stock: | | | | | |
| Earnings | \$5.22 | \$7.23 | \$7.42 | \$7.35 | \$6.37 |
| Dividends | \$2.88 | \$2.88 | \$2.64 | \$2.35 | \$2.10 |
| Average common and common equivalent shares outstanding (in thousands) | 16,429 | 16,406 | 16,344 | 14,527 | 14,535 |
| Cash dividends paid: | | | | | |
| On common stock | \$ 41,018 | \$ 40,683 | \$ 37,042 | \$ 33,563 | \$ 30,425 |
| On preferred stock | \$ 7,478 | \$ 7,809 | \$ 7,511 | \$ — | \$ — |
| At Year End | | | | | |
| Working capital | \$ 828,842 | \$ 785,328 | \$ 711,551 | \$ 606,833 | \$ 537,878 |
| Property, plant and equipment, net | 409,973 | 417,107 | 412,107 | 309,636 | 207,641 |
| Capital expenditures: | | | | | |
| Company owned property | 36,144 | 48,353 | 62,857 | 41,849 | 30,173 |
| Capitalized leased property | 3,966 | 3,940 | 5,860 | 4,759 | 16,427 |
| Total assets | 1,554,975 | 1,538,950 | 1,472,106 | 1,239,036 | 1,003,075 |
| Long-term debt | 193,341 | 198,054 | 187,208 | 60,225 | 41,236 |
| Obligations under capital leases | 73,785 | 76,820 | 79,925 | 80,718 | 68,146 |
| Stockholders' equity | 1,023,231 | 985,072 | 910,873 | 836,313 | 684,164 |
| Book value per common share | \$ 64.64 | \$ 62.36 | \$ 57.76 | \$ 52.21 | \$ 47.56 |

The above figures included under 1981, where applicable, have been restated for accrued compensated absences in accordance with the Financial Accounting Standards Board Statement No. 43.

Results of Operations

This discussion supplements the detailed information presented in the consolidated financial statements and footnotes which began on page 18. In addition, reference should be made to the operations review and Fiscal 1983 in Review on pages 4 through 16.

Net Sales—Net sales for fiscal 1983 were \$2.57 billion, down 4.0% from the \$2.67 billion reported in 1982. The economic downturn continued to have an impact on all segments of the company. The Furniture and Home Furnishings segment showed a decrease of 11.2% with most of the decrease coming in the case goods operation. The softness in the sales of men's shoes, both at wholesale and retail, along with the decline in the sales of safety shoes which depends on industrial employment, resulted in a decrease of 7.0% in the sales of the Footwear Manufacturing and Retailing Group. Net sales in fiscal 1982 improved 12.9% over the \$2.37 billion reported in fiscal 1981 when sales were up 17.0%. A substantial portion of the increase reported in these two years was the result of the acquisitions of Broyhill and Ethan Allen, which were accounted for as purchases.

Gross Margins—Gross margins for fiscal 1983 were \$807.1 million, or 31.4% of net sales compared to \$853.4 million, or 31.9% of net sales and \$776.8 million, or 32.8% of net sales in fiscal 1982 and 1981, respectively. The decreases in the percentage of gross margins are primarily due to the continuing impact of significant price discounting at the retail level, the decline in western wear, and curtailed production at certain manufacturing plants.

Selling, General & Administrative Expenses—Selling, general and administrative expenses for fiscal 1983 were \$635.9 million, or 24.8% of net sales compared to \$621.7 million, or 23.3% of net sales and \$551.9 million, or 23.3% of net sales in fiscal 1982 and 1981, respectively. While many steps were taken to control costs, selling, general and administrative expenses increased as a percent of sales. Additional emphasis on national advertising programs contributed to the cost increases as well as increased occupancy costs and write-offs and provisions relating to doubtful accounts.

Interest Expense—Interest expense in fiscal 1983 amounted to \$35.1 million compared to \$37.2 million and \$20.3 million in fiscal 1982 and 1981, respectively. The decline of 5.7% in fiscal 1983 is attributable to a reduced borrowing level, long term and short term, and a decline in interest rates. The increases in fiscal 1982 and 1981 were attributable to the assumed debts of the purchased companies, an increased level of short-term borrowing, at higher rates, to finance operational needs and the issuance of new debt.

Income Taxes—The effective tax rate for fiscal 1983 was 48.3% compared to 46.9% and 47.8% in fiscal 1982 and 1981, respectively. The increase in the effective rate for fiscal 1983 was the result of a slight increase in state tax rates, the effect of foreign currency revaluations in Mexico, and other factors including a lower benefit from capital gains tax treatment compared to the prior year.

Earnings Per Share—Earnings per share for fiscal 1983 were \$5.22, down 27.8% from the \$7.23 reported in fiscal 1982 which reflected a 2.6% decrease from fiscal 1981. The decrease in earnings per share was in line with the decrease in net earnings since the average shares outstanding for the last three years remained fairly constant.

Financial Condition

Faced with the prolonged economic slowdown, the company made a diligent effort to reemploy its working capital resources and improve liquidity by converting accounts receivable and inventories to cash and short-term investments, and by reducing current liabilities.

Cash and short-term investments totaled \$115.5 million at year end, an increase of \$88.5 million over the prior year.

Accounts receivable were lower by \$11.7 million, or 3.9%. Substantially all the accounts receivable relate to shipments in the fourth quarter which were about the same as the shipments in the fourth quarter of last year.

Inventories decreased from the prior year by \$51.9 million, or 7.5%, reflecting the effect of programs implemented at each operating group. All categories of inventory decreased, and especially important was the 7.8% decrease in finished manufactured products and the 3.3% decrease in retail merchandise.

Accounts payable and accrued expenses decreased \$17.8 million, or 8.2%, and a substantial portion of the decrease is attributed to the lower inventory levels.

Financing Arrangements — At fiscal 1983 year end, the company had no short-term borrowings. To meet short-term working capital requirements, the company maintains a credit agreement enabling it to borrow up to \$100 million in domestic or Euro-Dollar loans through February 28, 1987. Borrowings outstanding as of February 28, 1987 are repayable from that date through February 28, 1991. This credit facility is primarily intended to support commercial paper borrowings as required. The company also maintains other bank lines of credit aggregating \$92.5 million, as credit availability and additional support for the sale of commercial paper.

Long-term debt decreased by \$4.7 million during the year after increases of \$10.8 million and \$127.0 million in fiscal 1982 and 1981, respectively. The principal increase in fiscal 1982 was the remaining \$19.7 million of the 14¼% promissory notes initiated in fiscal 1981. The principal increases for fiscal 1981 in long-term debt were the 10% promissory notes for \$43.6 million issued for the purchase of Broyhill, and the \$80.3 million in commercial paper which was scheduled for redemption through the issuance of the \$100 million in 14¼% promissory notes.

Capital Expenditures — The company maintains formalized procedures for the review of capital expenditures. These include return on investment and project payback analyses.

Capital expenditures, for company-owned and capitalized leased property, aggregated \$254.3 million during the last five years, of which \$40.1 million occurred in fiscal 1983. It is anticipated that capital expenditures for fiscal 1984 will approximate \$45 million, of which \$6 million represented firm commitments at February 28, 1983. Cash flow from operations will provide the principal source of funds to support these expenditures.

Inflation Accounting — In Note 18 of the Notes to Consolidated Financial Statements, the company reports on Inflation Accounting based on the Consumer Price Index for all Urban Consumers as required under Financial Accounting Standards Board Statement No. 33. In addition, the effect of inflation is also presented based on the Consumer Price Index as it relates to the respective segments of the company.

Nathan S. Ancell
Chairman of the Board,
Ethan Allen Inc.

Ronald L. Aylward
Executive Vice President,
Administrative, of the Company

Zane E. Barnes
President and Chief Executive Officer,
Southwestern Bell Telephone
Company

Paul H. Broyhill
Chairman of the Board,
Broyhill Furniture Industries, Inc.

Stanley M. Cohen
Chairman of the Board,
Central Hardware Company

Edwin S. Jones
Retired

Donald E. Lasater
Chairman of the Board and Chief
Executive Officer, Mercantile
Bancorporation, Inc. and Mercantile
Trust Company National Association

Thomas H. O'Leary
Vice Chairman of the Board,
Burlington Northern Inc.

Norfleet H. Rand
Retired

John K. Riedy
Chairman of the Board and Chief
Executive Officer of the Company

Charles J. Rothschild, Jr.
President,
Campus Sportswear Company

Harvey Saligman
President and Chief Operating
Officer of the Company

Executive Committee

John K. Riedy, Chairman
Ronald L. Aylward
Norfleet H. Rand
Harvey Saligman

Audit Committee

Edwin S. Jones, Chairman
Zane E. Barnes
Donald E. Lasater
Thomas H. O'Leary

***Executive Compensation and
Stock Option Committee***

Donald E. Lasater, Chairman
Zane E. Barnes
Edwin S. Jones
Thomas H. O'Leary
Norfleet H. Rand

Nominating Committee

Zane E. Barnes, Chairman
Donald E. Lasater
Thomas H. O'Leary
John K. Riedy

John K. Riedy
Chairman of the Board and
Chief Executive Officer

Harvey Saligman
President and
Chief Operating Officer

Ronald L. Aylward
Executive Vice President,
Administrative

Eugene F. Smith
Senior Vice President,
Finance

Stanley M. Cohen
Vice President

Gerald B. Hirsch
Vice President

J. Carl Powers
Vice President

Charles J. Rothschild, Jr.
Vice President

Nathan S. Ancell
Vice President

Harry M. Krogh
Vice President

Paul H. Broyhill
Vice President

Duane A. Patterson
Secretary

Robert T. Hensley, Jr.
Treasurer

Stanley F. Huck
Controller

Keith E. Mattern
General Counsel and
Assistant Secretary

James K. Pendleton
Assistant Secretary

William R. Withrow
Assistant Treasurer

Russell L. Baumann
Assistant Controller

Wilfred G. Morice
Assistant Controller

John K. Riedy
Chairman of the Board and Chief
Executive Officer of the Company

Harvey Saligman
President and Chief Operating
Officer of the Company

Ronald L. Aylward
Executive Vice President,
Administrative, of the Company

Nathan S. Ancell
Chairman of the Board,
Ethan Allen Inc.

Edwin J. Baum
President,
The Biltwell Company, Inc.

Lionel Baxter
President,
Big Yank Corporation

Paul H. Broyhill
Chairman of the Board,
Broyhill Furniture Industries, Inc.

Stanley M. Cohen
Chairman of the Board,
Central Hardware Company

Webster L. Cowden, Jr.
President,
Cowden Manufacturing Company

Herschel Cravitz
President,
Queen Casuals, Inc.

Theodore A. Fell
President,
Sidney Gould Co. Ltd.

Barry S. Fine
President,
Fine's Men's Shops, Incorporated
and Standard Sportswear

Jean S. Goodson
Chairman of the Board,
International Hat Company

Gerald B. Hirsch
President,
P.N. Hirsch & Co.

William B. Klinsky
President,
Alberts, Inc.

Harry M. Krogh
President,
The Florsheim Shoe Company

Mark H. Lieberman
President,
Londontown Corporation

Stanley Matzkin
President,
Devon Apparel

Robert B. Peterson
Chairman of the Board,
Sky City Stores, Inc.

J. Carl Powers
President,
International Shoe Company

Charles J. Rothschild, Jr.
President,
Campus Sportswear Company

Arthur Sibley
President,
College-Town

Irving S. Wahl
Chairman of the Board,
Stuffed Shirt/Stuffed Jeans, Inc.

John Weil
President,
Eagle Family Discount Stores, Inc.

Apparel Manufacturing Group

Big Yank Corporation
New York, New York
The Biltwell Company, Inc.
St. Louis, Missouri
Campus Sportswear Company
Paramus, New Jersey
College-Town
Braintree, Massachusetts
Cowden Manufacturing Company
Lexington, Kentucky
Devon Apparel
Philadelphia, Pennsylvania
International Hat Company
St. Louis, Missouri
Londontown Corporation
Eldersburg, Maryland
Queen Casuals, Inc.
Philadelphia, Pennsylvania
Sidney Gould Co. Ltd.
Hauppauge, New York
Stuffed Shirt/Stuffed Jeans, Inc.
New York, New York

General Retail Merchandising Group

Alberts, Inc.
Detroit, Michigan
Central Hardware Company
St. Louis, Missouri
Eagle Family Discount Stores, Inc.
Miami, Florida
Fine's Men's Shops, Incorporated
Norfolk, Virginia
Golde's Department Stores, Inc.
St. Louis, Missouri
P.N. Hirsch & Co.
St. Louis, Missouri
Sky City Stores, Inc.
Asheville, North Carolina
Standard Sportswear
Pittsburgh, Pennsylvania
United Shirt Distributors, Inc.
Detroit, Michigan

Footwear Manufacturing and Retailing Group

The Florsheim Shoe Company
Chicago, Illinois
International Shoe Company
St. Louis, Missouri
Senack Shoes, Inc.
St. Louis, Missouri

Furniture and Home Furnishings Group

Broyhill Furniture Industries, Inc.
Lenoir, North Carolina
Ethan Allen Inc.
Danbury, Connecticut

Stockholder Information**Transfer Agents**

(Common and Preferred Stock)
Mercantile Trust Company
National Association
St. Louis, Missouri 63166
(314) 425-2755
Morgan Guaranty Trust Company
New York, New York 10249
(212) 587-6434

Registrars

(Common and Preferred Stock)
Centerre Trust Company
St. Louis, Missouri 63178
(314) 231-9300
Morgan Guaranty Trust Company
New York, New York 10249
(212) 587-6434

Dividend Disbursing Agent

(Common and Preferred Stock)
Mercantile Trust Company
National Association
St. Louis, Missouri 63166
(314) 425-2755

Independent Accountants

Peat, Marwick, Mitchell & Co.
St. Louis, Missouri 63101

Exchange Listings

Common and Preferred Shares and 14 $\frac{1}{4}$ % Notes are listed on the New York Stock Exchange. Common Shares are also listed on the Midwest Stock Exchange.
(Trading symbol: ISS)

Corporate Offices

Ten Broadway
St. Louis, Missouri 63102
(314) 231-1100
Mailing Address:
Post Office Box 8777
St. Louis, Missouri 63102

Annual Meeting

The Annual Meeting of Stockholders will be held at 10 a.m., Monday, June 27, 1983, at the Marriott Pavilion Hotel, One Broadway, St. Louis, Missouri. Notice of the meeting and a proxy statement will be sent to stockholders in a separate mailing.

INTERCO INCORPORATED
ST. LOUIS, MISSOURI